

Mayora Indah (MYOR IJ)

20 February 2017

Initiating Coverage

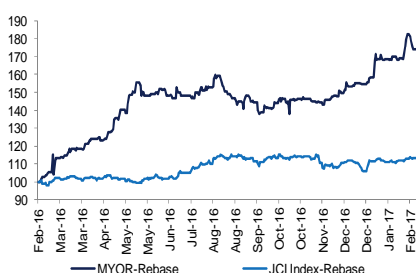
SELL (New)

Stock Data

Target price (Rp)	Rp1,450
Prior TP (Rp)	n/a
Shareprice (Rp)	Rp1,885
Upside/downside (%)	(23.1)
Sharesoutstanding (m)	22,359
Marketcap. (US\$ m)	3,162
Free float (%)	66.9
Avg. 6m dailyT/O (US\$ m)	0.1

Price Performance

	3M	6M	12M
Absolute (%)	24.4	23.6	74.5
Relative to JCI	20.3	24.3	60.3
52w high/low (Rp)	1,900 - 1,080		



Major Shareholders

Unita Branindo	33.1%
Public & Others	66.9%

Estimate Change; Vs. Consensus

	2016F	2017F
Latest EPS (Rp)	60	66
Vs. Prior EPS (%)	-	-
Vs. Consensus (%)	4.3	(5.9)

Source: Bloomberg

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Innovation That Got Away

- Mayora's earnings were closely tied to commodity prices.
- New popular products are belonged to its private entity.
- Major market share shrinkages in all segments.
- Initiate coverage with SELL at TP of Rp1,450.

Earnings under pressure from rising commodity prices. We believe Mayora Indah's (MYOR) earnings were highly sensitive to rising costs from higher sugar price. This was evident when MYOR's gross margin reached the lowest at 17.5% in 2014 and 17.9% in 2011 during the period of rising soft commodity prices. Meanwhile, MYOR's gross margin was reported at 28.3% in 2015 due to lower sugar prices during the period. We also view that MYOR has not been able to fully pass on the cost hike to consumers as we consider MYOR's products as non-essential items unlike UNVR's or AISA's products. Given that MYOR is not a market leader in its respective segments and the intensifying competitions in Indonesia F&B market, this will further put pressure on MYOR's pricing power.

Innovation has been relatively stagnant. We do not like MYOR's decision to put its new product innovations such as premium instant noodle, *Bakmi Mewah* and RTD coffee, *Kopiko 78°C* under its private entity. Meanwhile, under the listed company, we view the innovation has been relatively stagnant. We view the implementation of AEC starting January 2016, the entrance of the foreign players will further intensify the competition in Indonesia F&B market. Despite MYOR's plan to boost ad spending this year, we view the new entrances might take a toll on MYOR's performance and further shrivel its market share if the innovation remains stagnant.

Losing market share in all segments. MYOR's market share in Indonesia's biscuit market has eroded to 10.6% in 2014 (vs. 2012: 17%), where MYOR's position has fallen to fourth place from second during the period. The biscuit market in Indonesia is currently dominated by foreign companies such as Mondelez and Khong Guan with a combined market share of 58%. Meanwhile in Indonesia's coffee segment, MYOR's has gradually losing its market share to 4.7% in 2015 from 5.9% in 2012. Meanwhile, MYOR's main competitor, PT. Santos Abadi (*Kapal Api*) with 17.3% of market share has successfully grabbed MYOR's market share. We see the lack of product distinction among coffee products in Indonesia's coffee segment will benefit the incumbent with higher brand equity.

Valuation. Our DCF-based target price of Rp1,450 (key assumption: WACC: 11.3%, TG: 5%), implies FY17F P/E of 22.1x. The stock is trading at FY17F P/E of 29x, higher than average consumer peers which we think is unwarranted given its high earnings volatility and exposure to commodity price movement, unlike most other consumer staples peers in Indonesia. We initiate coverage with SELL.

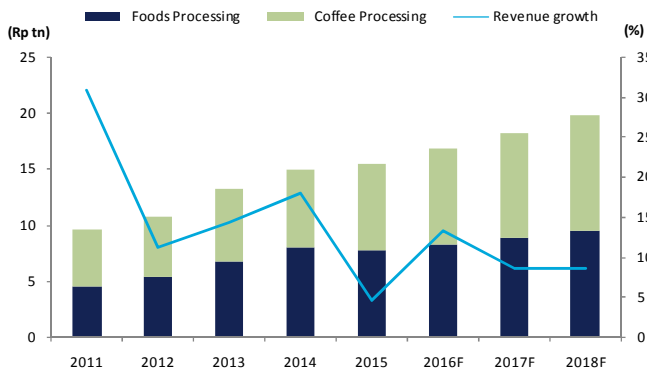
Year To 31 Dec	2014A	2015A	2016F	2017F	2018F
Revenue (RpBn)	14,169	14,819	17,512	19,788	22,263
EBITDA (RpBn)	1,302	2,331	2,623	2,908	3,279
EBITDA Growth (%)	(22.0)	79.1	12.5	10.9	12.7
Net Profit (RpBn)	403	1,220	1,349	1,469	1,712
EPS (Rp)	18	55	60	66	77
EPS Growth (%)	(61.3)	202.4	10.6	8.9	16.5
Net Gearing (%)	70.9	21.7	41.4	40.9	33.6
PER (x)	104.5	34.5	31.2	28.7	24.6
PBV (x)	10.3	8.1	6.7	5.7	4.8
Dividend Yield (%)	0.5	0.3	0.7	0.7	0.8
EV/EBITDA (x)	33.3	17.8	16.4	15.0	13.2

Source: MYOR, IndoPremier

Share Price Closing as of : 16 February 2017

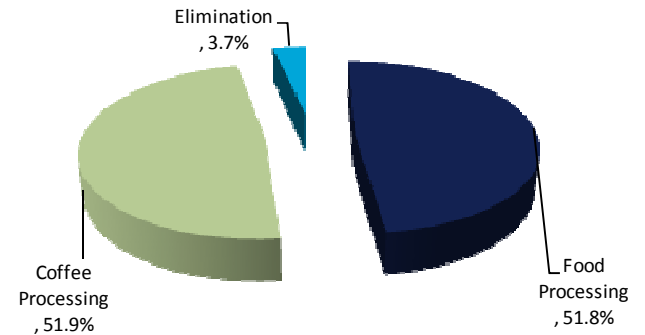
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Fig. 1: MYOR's Revenue Trend



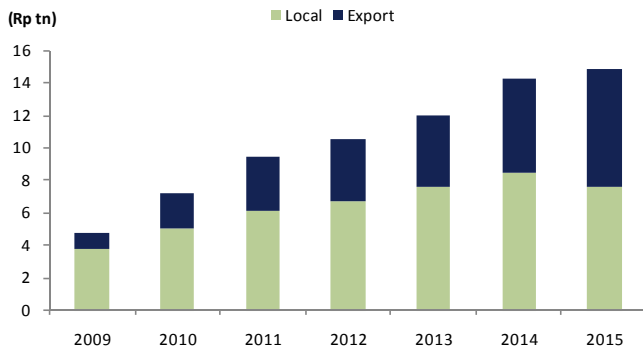
Source: Company, Indo Premier

Fig. 2: MYOR's Revenue Breakdown by Segmentation in 2015



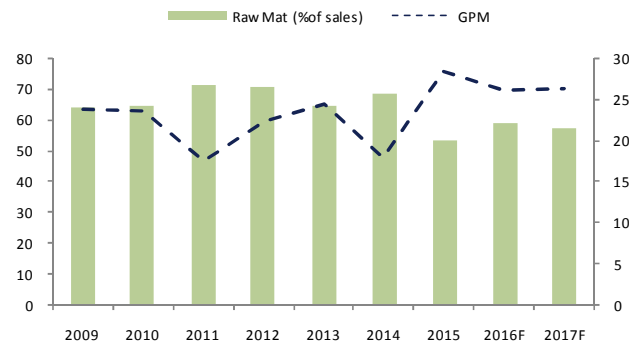
Source: Company, Indo Premier

Fig. 3: MYOR's Historical Export vs. Domestic Sales Trend



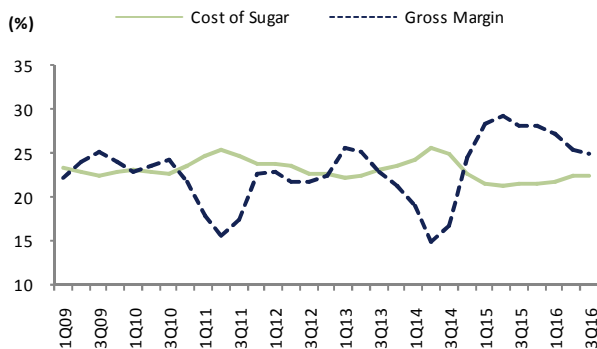
Source: Company, Indo Premier

Fig. 4: GPM was hit during high commodity prices



Source: Company, Indo Premier

Fig. 5: Cost of Sugar (as % of sales) vs. Gross Margin; 2Q MA



Source: Bloomberg, Company, Indo Premier

Fig. 6: MYOR's Historical P/E Band



Source: Bloomberg, Indo Premier

Investment Case

Earnings were highly affected by commodity prices

As much as 60% of MYOR's raw materials are USD linked, where sugar and wheat are among the top four components of raw material, apart from coffee and palm oil. We believe MYOR's earnings were highly sensitive to rising costs from higher commodity prices. This was evident when MYOR's gross margin reached the lowest at 17.5% in 2014 and 17.9% in 2011 during the period of rising soft commodity prices, in which the raw materials cost was accounted for 71% and 68% of total sales in 2011 and 2014, respectively (vs. average of 65% during 2010-2015). As a result, MYOR's net margin has been fluctuated, unlike other consumer peers such as UNVR and KLBF which have the ability to maintain stable margin. Whereas, the jump in MYOR's gross margin to 28.3% in 2015, the highest during the 10 years, was attributable to favorable raw materials cost especially sugar. However, as of 9M16, raw materials cost accounted for 60% of total sales (9M15: 53%), where gross margin contracted to 26.5% in 9M16 (9M15: 28.6%). Given that sugar and coffee price have surged by 25.1% and 19.8%, respectively, during 2016, we are cautious that the continuous uptrend in soft commodity prices to put pressure on MYOR's earnings in FY16F. Therefore, we forecast earnings to only grow by 10.6% yoy in FY16F on increasing commodity prices. Given the nature of MYOR's product as non-essential items, we think that MYOR has limited ability to fully pass on the cost hike to consumers unlike other consumer staples, such as UNVR, or AISA. Even worse, given that MYOR is not a market leader in its respective segments and the intensifying competitions in Indonesia F&B market, these to further put pressure on MYOR's pricing power. In addition, the relatively weak economic condition has forced MYOR to be more cautious on ASP hike.

Innovation has been relatively stagnant

MYOR has been recognized as one of the most valuable brands and a pioneer in some consumer food products in Indonesia namely coffee candy, wafer sticks, chocolate coated wafer, chocolate paste, cereal and coffee mix. Until recently, we do not like MYOR's decision to launch new product innovation such as premium instant noodle, *Bakmi Mewah* and RTD coffee and tea, *Kopiko 78°C* and *The Pucuk Harum* under its private entity. Meanwhile, under the listed company, we view the innovation has been relatively stagnant. The latest product launched was back in 2014 for *Roma* cookies and Sari Gandum to cater more health conscious consumers. Although we see there is a growing appetite of healthier products, we see the competition in biscuit market has gotten fiercer than ever. Furthermore, due to the implementation of ASEAN Economic Community (AEC) in January 2016, we think the entrance of the foreign players will further intensify the competition in Indonesia F&B market. Despite MYOR's plan to boost its ad spending, we believe the new entrances will take a toll on MYOR's performance and might further shrivel its market share if the innovation remains stagnant.

Losing market share in all segments

MYOR's market share in Indonesia's biscuit market has eroded to 10.6% in 2014 from 17.0% in 2012, where MYOR's position has fallen to fourth place from second during the period. Biscuit market in Indonesia is highly concentrated with the top four players holding 82.4% of the total market value. The market is currently dominated by foreign companies such as Mondelez and Khong Guan with market share of 34.8% and 23.2%, respectively in 2015. Similarly, in its coffee segment, MYOR's has gradually losing its market share to 4.7% in 2015 from 5.9% in 2012. Meanwhile, MYOR's main competitor, PT. Santos Abadi (*Kapal Api*) and PT. Nestle Indonesia has strengthen their position in Indonesia coffee market with growing market share in recent years. We see the lack of product distinction among coffee products in Indonesia's coffee segment has benefited the incumbent due to brand familiarity and popularity.

Valuation. Initiate with SELL.

Our DCF-based target price of Rp1,450 (key assumpt.: WACC: 11.3%, TG: 5%, risk free rate: 7.5%), implies FY17F P/E of 22.1x. We think the valuation is demanding given the company's high earnings volatility and exposure to commodity price movement, unlike most other consumer staples peers in Indonesia. Thus, we initiate with SELL. It is so unfortunate considering the fact that MYOR has long outstanding history and recognized for its solid execution record. Key risk factors: Indonesia's macroeconomic condition, rising competition, price war in coffee, weakening currency, rising material cost and cost of capital in the country.

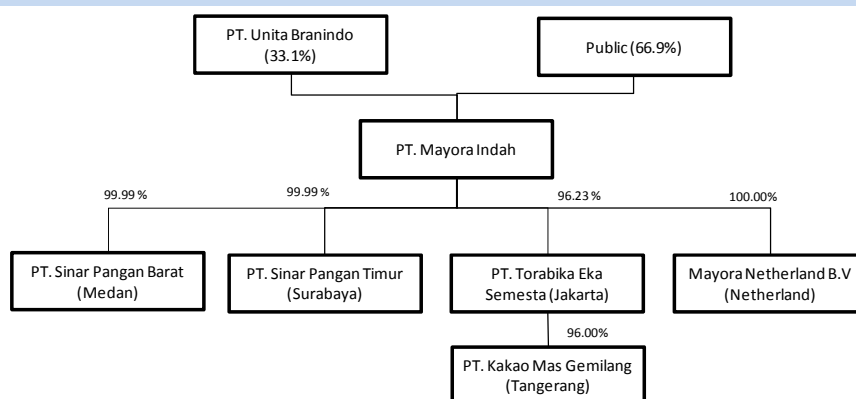
One of the Pioneers in Indonesia F&B Market

One Big Name in Indonesia F&B Market

Over the last four decades since its establishment in 1977, Mayora Indah (MYOR) has progressively transformed from a humble home biscuit industry into one of the major biscuit and instant coffee producers in Indonesia. During 40 years of existence, MYOR's products have been successfully exported to more than 49 countries including China, India, Philippines, Thailand, Singapore, Nigeria, Malaysia, Vietnam, America and Europe. In Indonesia, MYOR has been recognised as one of the most valuable brands as well as a pioneer in some of consumer food products namely coffee candy (*Kopiko*), wafer sticks (*Astor*), chocolate coated caramel wafer (*Beng Beng*), chocolate paste (*Choki-Choki*), cereal mix (*Energen*) and coffee mix (*Torabika*).

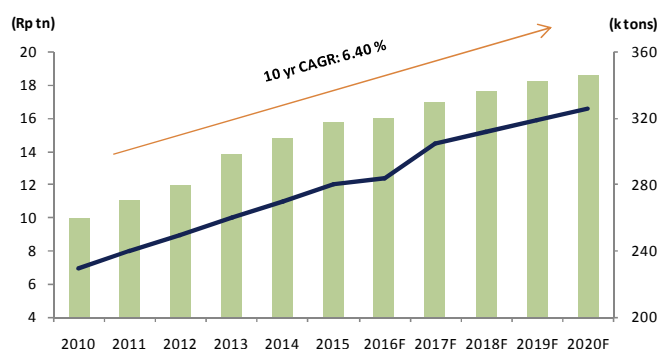
The company has nine manufacturing facilities in Indonesia, of which seven are located in Tangerang and Bekasi, and two in Medan, North Sumatera. Currently, MYOR operates two distinguished business lines namely food processing which accounted for 50% of total sales in 2015 and coffee processing which accounted for 50% of total sales in 2015. The food processing is further categorized into biscuits, candy, wafer & chocolate and cereal mix. Meanwhile, in the coffee division, its brand, *Torabika*, has been growing to become a household name. Due to its long outstanding history and high exposure to export market, the company has been awarded as "Top 100 Exporter Companies in Indonesia" from SWA Magazine, "Top Five Best Managed Companies in Indonesia", "Best Manufacturer of Halal Products" in 2004 and "Top 100 Public Listed Companies" in 2009 and 2010. The company is also regarded as one of the best management teams in Indonesia. During 2005-2010, MYOR reported earnings growth of 35% CAGR. Despite the tightening competition in F&B scene in Indonesia, MYOR's earnings still grew 21% CAGR during 2010-2015 on the back of 13% CAGR of revenue growth during the same period.

Fig. 7: MYOR's Shareholder Structure as of 2015



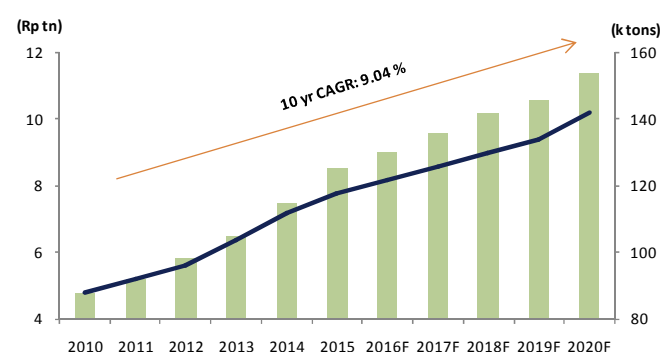
Source: Company

Fig. 8: Market Size Biscuits in Indonesia



Source: Euromonitor 2016

Fig. 9: Market Size Coffee in Indonesia



Source: Euromonitor 2016

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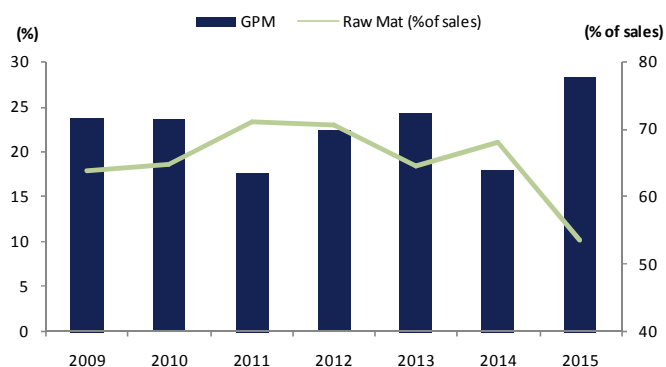
High Earnings Volatility

Despite robust earnings growth in the past 10 years, we think that Mayora Indah's (MYOR) earnings were highly sensitive to commodity prices. As much as 60% of MYOR's raw materials are USD linked, where sugar (c.35% of total raw material costs) and wheat are among the top four components of raw material, followed by coffee and palm oil. This was evident when MYOR's gross margin reached the lowest at 17.9% in 2014 and 17.5% in 2011 during the period of rising soft commodity prices, in which the raw materials cost was accounted for 71% and 68% of total sales in 2011 and 2014, respectively (vs. average of 65% during 2010-2015). As a result, MYOR's net margin has been fluctuated, unlike other consumer peers such as Unilever Indonesia (UNVR IJ; Rp42,600; HOLD) and Kalbe Farma (KLBF IJ; Rp1,485; BUY) which have the ability to maintain stable margin.

On the contrary, during the slump in commodity prices in 2015, MYOR's gross margin jumped to 28.3% in 2015, the highest in the past eight years despite weak revenue growth of only 5% yoy during the same period. This suggests that MYOR has not been able to fully pass on the cost hike to consumers as MYOR's products as non-essential items unlike UNVR's and Tiga Pilar Sejahtera's (AISA IJ; Rp1,960; BUY) products. In addition, given that MYOR is not a market leader in its respective segments and intensifying competitions in Indonesia F&B market, this further puts pressure on MYOR's pricing power.

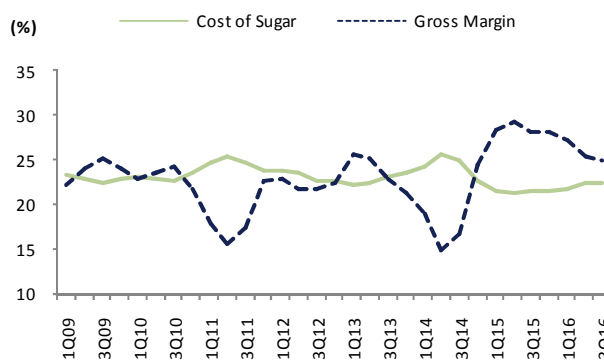
We are a little bit cautious for FY16F earnings growth due to continuous uptrend in soft commodity prices during 2016. As in 9M16, the raw material cost was accounted for 60% of total sales, which is higher than 9M15 figures at 53% of total sales. In addition, given that sugar and coffee price have surged by 25.1% and 19.8%, respectively in 2016. Therefore, we forecast earnings to only grow by 10.6% yoy in FY16F on rising commodity prices.

Fig. 10: Historical gross profit and raw materials cost trend



Source: Bloomberg, Indo Premier

Fig. 11: Cost of Sugar (% of sales) vs. Gross Margin; 2Q MA



Source: Bloomberg Company,, Indo Premier

Fig. 12: Sugar Price Trend



Source: Bloomberg, Indo Premier

Fig. 13: Wheat Flour Price Trend



Source: Bloomberg, Indo Premier

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Fig. 14: Coffee Price Trend



Source: Bloomberg, Indo Premier

Fig. 15: CPO Price Trend



Source: Bloomberg, Indo Premier

Indonesia F&B Market is Highly Saturated

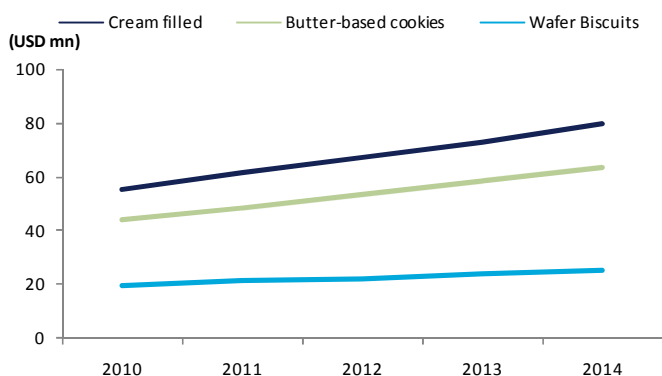
Lucrative Indonesia F&B market

We view Indonesia as the fourth largest population in the world with population of more than 260mn as of September 2016, serves as promising market for F&B market. With an average age of 29, Indonesia is a nation of millennial. Unlike those older people who are usually stick to familiar things; young people tend to be more experimental in pursuing different lifestyle. This phenomenon is further supported by rising affluence given by rising incomes which indicates consumers are able to afford a greater range of products.

According to Kantar World Panel, local brands in Asia, Latin America and part of Europe, continue to outpace the market and grow at nearly twice the rate of global brands. The most notable trend is seen in China, where 75% of shoppers prefer local brand, followed by Indonesia with 61% and India with 57%. We believe this serves as promising outlook for MYOR given its long outstanding history in Indonesia F&B industry. Unfortunately, we think MYOR has not kept up with its innovation culture in recent year. This is so unfortunate, considering the fact the F&B products especially snacks and biscuits in Indonesia to benefit from growing demand for practical and convenient food due to consumers' increasingly busy lifestyle.

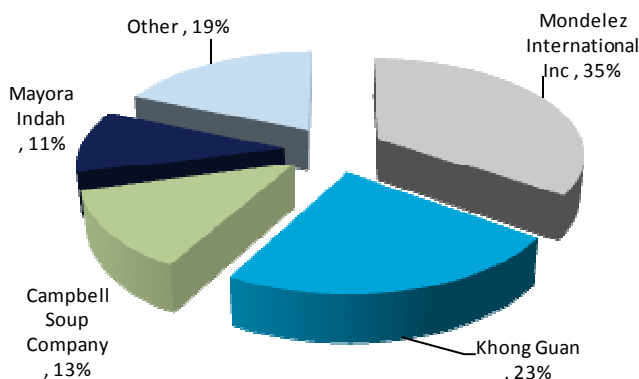
During 2013 – 2015, biscuit market in Indonesia has grown 8.4% CAGR according to Nielsen, and is predicted to continue growing in the future. The biscuit market in Indonesia is highly concentrated with the top four players holding 82.4% of the total market value. Despite being dominated with foreign players, MYOR has successfully being in the top four biscuit producers with 10.6% 8% market share. Among its popular brands are *Roma*, *Astor*, *Beng Beng* and *Better* of market share, after Mondelez International with 34.8% market share, Khong Guan with 23.2% market share and Campbell with 12%.

Fig. 16: Indonesia biscuit market share, by value 2014



Source: Market Line

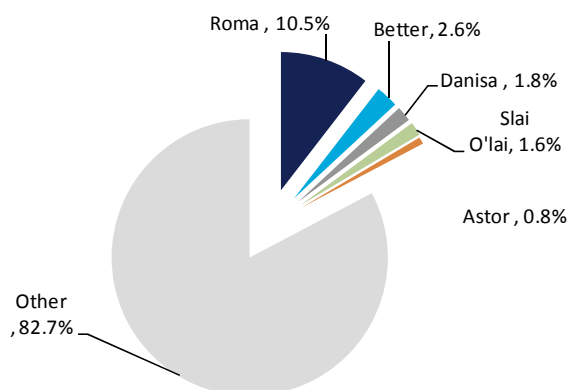
Fig. 17: Indonesia biscuit market share, by value 2014



Source: Market Line

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Fig. 18: MYOR's market share in biscuit products (2015)



Source: EMIS Securities, Euromonitor

Fig. 19: Various Biscuit Products in Indonesia

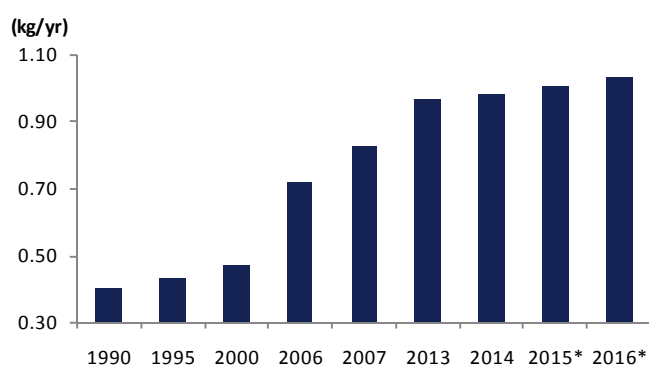


Source: Indomaret, Indo Premier

In the recent years, Indonesian coffee consumption also continues to expand, growing faster than the production rate of around 739,000 tons per annum. The coffee retail volume has also grown 10.40% CAGR in 2010-2015, according to Euromonitor and it is further predicted to reach Rp11.9tn in 2020. Despite being the world's fourth largest coffee-producer, Indonesia per capita coffee consumption only stood at 1.1kg in 2015, still below its neighbouring countries namely Vietnam (1.4kg), Philippines (1.6kg), and Japan (3.4kg).

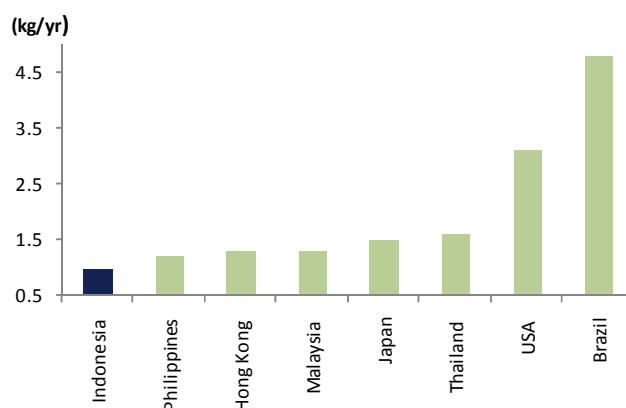
The low per capita coffee consumption attracts many players to enter the lucrative Indonesia coffee market, which makes the competitions become more intense than ever. The coffee market in Indonesia is still dominated with Nestle Indonesia in terms of retail value sales. Meanwhile, in terms of volume sales, Santos Jaya Abadi still leads the market. There are currently more than 500 coffee processing companies in Indonesia. Meanwhile, the local company, Santos Jaya Abadi with *Kapal Api* and Sari Incofood Corp with *Indocafe* brand remained to be MYOR's main competitors. In 2007, MYOR came up with strategy to create new concept of Torabika cafe, which targeting a more sophisticated coffee lover. Currently, there are more than 350 outlets throughout Indonesia.

Fig. 20: Per Capita Coffee Consumption Trend in Indonesia



Source: Statista 2016, UN Estimates

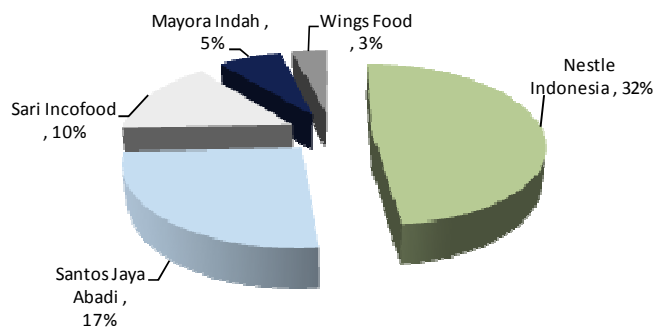
Fig. 21: Comparison of Per Capita Coffee Consumption



Source: Euromonitor 2013

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Fig. 22: MYOR's Coffee market share (2015)



Source: EMIS Securities, Euromonitor 2016

Fig. 23: No Sight of Torabika Coffee Products at Indomaret



Source: Indomaret, Indo Premier

Losing market share in all segments

MYOR's market share in Indonesia's biscuit market has eroded to 10.4% in 2014 (vs. 2012: 17%), where MYOR's position has fallen to fourth place from second during the period. Biscuit market in Indonesia is highly concentrated with the top four players holding 82.4% of the total market value. The market is currently dominated by foreign companies such as Mondelez and Khong Guan with market share of 34.8% and 23.2%, respectively in 2015.

Back in 2014, MYOR faced intense competition from *Top Coffee*, brand under Wings Group; fortunately, MYOR still leads with 4.7% market share (vs. Wings with only 2.5% market share) in 2015, according to Euromonitor. However its market share has gradually shrunk to 4.7% in 2015 from 5.9% in 2012. Meanwhile, MYOR's main competitor, PT. Santos Abadi (*Kapal Api*) and PT. Sari Incofood (*Indocafe*) has strengthen their position in Indonesia coffee market with growing market share. To make things worse, we see the lack of product distinction among coffee products in Indonesia's coffee segment has benefited the incumbent due to brand equity.

Therefore, given the intensifying competition we think that innovation is highly crucial to maintain MYOR's market share and brand equity in Indonesia F&B market. Otherwise, we do not think MYOR will be able to sustain its position in the longer term given the more challenging backdrop in Indonesia's F&B market.

Intensifying A&P spending despite stagnant innovation

Since its establishment in 1977, Mayora Indah (MYOR) has been recognized as a pioneer in some consumer food products in Indonesia namely coffee candy, wafer sticks, chocolate coated wafer, chocolate paste, cereal mix and coffee mix. However, just until recently, we are disappointed that MYOR's new product launched such as premium instant noodle, *Bakmi Mewah* and RTD coffee, *Kopiko 78°C* is recognized under its private entity. Meanwhile, under the listed company, the latest product launched was back in 2014 for Roma cookies, a brand extension of Roma biscuits, and Sari Gandum, wheat-based biscuit, to cater more health conscious consumers. Although we see there is a growing appetite of healthier products, we see the competition in biscuit market has gotten fiercer than ever.

Meanwhile, in the Indonesia coffee market we are still cautious given the intensifying competition and strong domination especially from foreign company such as Nestle with its new innovation of ready-to-drink (RTD) coffee. Recognizing the trend among urban dwellers in increasing demand towards more convenient products, MYOR initiated RTD coffee in 2013, which is followed by Nestle Indonesia with *Nescafe* brand in less than a year after MYOR launched its RTD Coffee. However, the product is recognised under its private entity and not in its listed company. This is so disappointing considering that RTD-Coffee market in Indonesia was valued more than Rp1tn in 2014, according to MARS Indonesia, which could further add value and boost MYOR's performance.

Despite a relatively stagnant innovation, management indicated that they will allocate higher spending for A&P to boost revenue. As of 9M16, A&P spending was accounted for 8.8% of total sales. We believe A&P is highly crucial to solidify brand equity and maintain brand

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awareness. The company plans to spend almost 70% of the budget for television commercial (TVC), while the rest will be allocated into direct marketing as well as for distributors' incentives to ensure more effective marketing. As a result of intensifying A&P, we expect this will trigger more brand activities in which will boost its revenue growth and increase more brand awareness. As seen in 2010 and 2013, when revenue grew by 51.2% yoy and 14.3% yoy, respectively due to higher A&P spending of 9.1% of total sales and 8.6% of total sales in 2010 and 2013, respectively.

We like MYOR's strategy to promote its brand to also utilize below the line promotion by organizing annual free yoga events to increase health awareness among Indonesians and maintain the brand equity of *Sari Gandum* biscuits. Therefore, we expect the more aggressive A&P spending this year will result in more brand activation strategy apart from annual free yoga events. However, we think the strategy would be more successful if it is backed with strong innovation culture. Otherwise, it would be meaningless.

Fig. 24: MYOR's Various Foods Processing Products



Fig. 25: MYOR's Various Coffee Products



Source: EMIS Securities, Euromonitor 2016

Source: Euromonitor 2013

Fig. 26: Price Comparison

	Producer	Weight (gr)	Price Rp
Biscuit			
Roma Biskuit Kelapa	Mayora Indah	300	10,000
Nissin Biskuit Kelapa Ijo	Monde Corp	280	7,200
Roma Marie Susu	Mayora Indah	115	6,500
Regal Marie Biskuit	Marie Regal	125	12,600
Roma Malkist Abon	Mayora Indah	135	14,100
Khong Guan Malkist Abon	Khong Guan	135	6,800
Gery Saluut Malkist	Garuda Food	140	8,000
Waffer			
Astor Wafer Stick Choco	Mayora Indah	150	11,400
Gery Chocolatos Grande	Garuda Food	66	5,200
Twister Choco	Delfi	45	4,500
Beng Beng Choco Wafer Maxx	Mayora Indah	32	3,000
TOP X-tra Large	Delfi	45	3,300
Instant Coffee			
Torabika 3in1	Mayora Indah	20	1,265
TOP Mocca	Wings Food	31	950
Kapal Api Grande 3in1	Kapal Api	20	1,095
ABC Kopi Susu	ABC	31	1,085
RTD Coffee			
Kopiko 78C	Mayora Indah	240	5,967
Good Day	Kapal Api	200	5,800
Nutritional Foods			

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Energen	Mayora Indah	30	1,670
Ceremix	Santos Jaya Abadi	30	1,010
Entrasol Quick Start	Kalbe Farma	30	4,100
Candy			
Kopiko	Mayora Indah	150	9,550
Kapal Api Coffee Candy	Kapal Api	135	7,583
Chocolate Paste			
Chocki Choki	Mayora Indah	220	18,000
Gery Pasta	Garuda Food	250	17,000

Source: Indomaret, Priceza.co.id, Alfamart as of August 2016

Impact from ASEAN Economic Integration

ASEAN Economic Integration might become positive catalyst

Since January 1, 2016, ASEAN Economic Community (AEC) has come into effect. The main objective of the program is to improve economic stability in Southeast Asia, improve ASEAN competitiveness and enable members to compete with China and India in attracting more foreign investment. Indonesia which has the largest economy in Southeast Asia has the largest population size which serves as a lucrative market for various F&B products. The AEC will reduce some regulation that might hinder the export and import activities, such as tariff barrier elimination. Therefore, we expect AEC program to intensify the competition in the domestic market.

In accordance with AEC program, Indonesia Government has undertaken some measurement such as Aku Cinta Indonesia (I love Indonesia) program as a national branding campaign to encourage consumers to use domestic products such as garments, F&B products, tourism, etc, over foreign products. However, given MYOR's stagnant innovation, we view MYOR's products might lose its edge as foreign products flood the market.

On the positive note, we also expect the implementation of ASEAN Economic Community (AEC) will open more opportunity for MYOR to extend its export market coverage. Currently, MYOR's products are exported to more than 49 countries. During the past five years, MYOR's export sales have grown 40.2% CAGR in FY2009-2015, faster than the growth of its domestic sales of only 12.0% CAGR during the same period. In 9M16, export sales contributed 44% of MYOR's total sales. After the implementation, AEC might become catalyst for MYOR to further boost its export sales. We like the company's exposure to export market since it has provided them cushion during IDR depreciation especially in 2015. In addition, the export sales have offset the weak domestic sales during soft economic condition in Indonesia. Going forward, we might see bigger growth potential for MYOR in the export market.

Despite the possible foreign entrances, there will be regulation that all products that are traded in AEC are required to have Halal certification. We think this might become an obstacle for foreign companies to comply with the regulation but not with MYOR since all of its products are all already Halal-certified. Therefore, we think this will serve as competitive advantage for MYOR over foreign products.

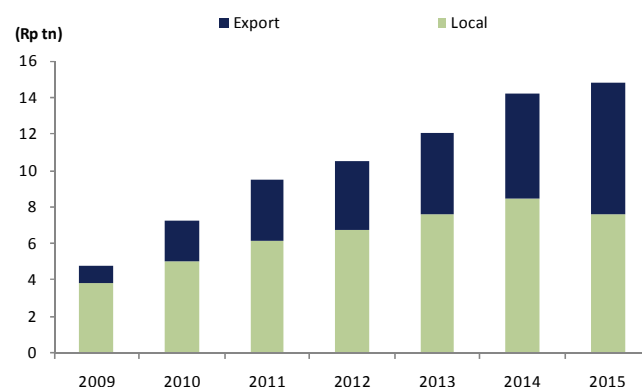
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Fig. 27: USD/IDR Exchange Rate



Source: Bloomberg, Indo Premier

Fig. 28: MYOR's Export vs. Domestic Sales Trend



Source: Indo Premier, Company

Earnings Forecasts and Assumptions

We forecast MYOR's net profit to grow to Rp1.3tn in 2016F (+10.5% yoy) on the back of 18.2% yoy revenue growth. We expect the margin to contract to 27.0% in 2016F on higher commodity prices (i.e. sugar and coffee prices surged 25.1% and 19.8%, respectively, during 2016).

We forecast MYOR's net profit to rise to Rp1.4tn in 2017F (+8.9% yoy) and Rp1.7tn in 2018F (+16.5% yoy) due to possibility of slight improvement in raw material cost, especially sugar price. At the operating level, we forecast MYOR's EBITDA margin to slightly lower to 15.0% during 2016F and will be at an average of 14.7% during 2017-2018F on higher A&P spending. Meanwhile, we expect that operating profit to grow by 11.1% yoy in 2016F and 12.5% in 2017F, on the back of MYOR's revenue growth of 18.2% and 13.0%, in 2016F and 2017F, respectively.

Fig. 29 : Summary of Our Earnings Forecasts

(Rp bn)	2014	2015F	2016F	2017F	2018F
Revenue	14,169.1	14,818.7	17,511.9	19,788.4	22,262.7
Gross Profit	2,535.2	4,198.3	4,728.2	5,481.4	6,166.8
EBITDA	1,301.8	2,331.5	2,623.3	2,928.1	3,278.9
Operating Profit	890.9	1,862.6	2,101.4	2,354.8	2,627.0
Pre-Tax Profit	529.3	1,640.5	1,818.1	2,000.0	2,307.2
Net Profit	403.4	1,220.0	1,349.0	1,469.0	1,711.9
Ratios (%)					
Gross Margin	17.9	28.3	27.0	27.7	27.7
EBITDA Margin	9.2	15.7	15.0	14.7	14.7
Net Margin	2.8	8.2	7.7	7.4	7.7

Source: IndoPremier Forecasts

Our key earnings forecast assumptions are stated below and in the following table:

- Revenue.** We assume biscuit products to still be the main driver in the food processing division due to fierce competitions in coffee market. We forecast the overall revenue to grow at 14.5% CAGR during 2015-2018F (vs. 15.5% CAGR during 2010-2015). We expect the revenue to reach Rp17.5tn (+18.2% yoy) in 2016F and Rp19.8tn (+13.0% yoy) in 2017F which mainly comes from volume growth as the company will continue capacity expansion and be more cautious with ASP hike due to unfavorable economic condition.
- COGS.** We assume cost of goods sold to expand to 73.0% of total sales in 2016F, notably due to the uptrend in raw material cost this year. We expect the material cost to be slightly lower at 57% of total sales in 2017-2018F as we use sugar price assumption of

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US\$20 cents/lb during the same period (vs. US\$22.9 cents/lb in 2016). Direct labor cost is assumed to remain relatively stable at 5% of sales during 2016F-2017F, while manufacturing overhead to be at an average of 9% of sales during 2016F-2017F.

- **Gross Margin.** We assume the gross margin in food and coffee processing to contract due to uptrend in raw material cost especially sugar and coffee prices during 2016. As a result, we expect the overall gross margin to decline to 27.0% in FY16F (vs. FY15: 28.3%) before improving to 27.7% in FY17F and FY18F due to lower sugar price outlook during the period.
- **Opex.** We assume selling expense to be at 15.0% of total sales in 2016F and to be slightly higher at 15.8% of total sales 2017F on higher selling expense. We expect A&P to be at 9.5% of total sales in FY16F and slightly higher to 10.3% of total sales in 2017-2018F. We see A&P spending would be crucial to maintain brand awareness and bolster consumption. Therefore, we assume selling expense to be at an average of 12.7% of total sales in 2017F-2018F while G&A expense to remain at 3.2% of total sales during the same period.

Fig. 30: Our Key Earnings Forecast Assumptions

	2014	2015	2016F	2017F	2018F
Revenue Growth (%yoy)					
- Food Processing	19.1	(3.9)	15.0	13.0	13.0
- Coffee Processing	6.2	11.5	13.0	13.0	12.0
Revenue	17.9	4.6	18.2	13.0	12.5
COGS (% of sales)					
- Direct Material	68.1	53.5	58.0	57.0	57.0
- Direct Labor	4.9	4.7	5.0	5.0	5.0
- Manuf. Overhead	10.8	11.7	9.0	9.0	9.0
Total	82.1	71.7	73.0	72.3	72.3
Gross Margin					
- Food Processing	19.2	27.1	26.3	26.9	26.8
- Coffee Processing	14.6	27.6	27.8	28.5	28.6
Total	17.9	28.3	27.0	27.7	27.7
Operating Cost (% sales)					
- G&A Expenses	2.5	3.1	3.1	3.2	3.2
- Selling Expenses	9.1	12.7	11.9	12.7	12.7
Total	11.6	15.8	15.0	15.9	15.9

Source: Indo Premier Forecasts

Sensitivity Analysis

We performed a sensitivity analysis on our FY16 net profit forecasts to changes in our revenue, cost of goods sold, gross margin and operating cost assumptions. We found MYOR's earnings to be most sensitive to assumptions on gross profit margin, with each one percentage point lower margins versus our assumptions leading to a reduction in our FY16F earnings forecasts by 0.39% and 0.38% in coffee processing segment and food processing segment, respectively. Similarly, for every 1% higher raw material costs than our assumption, our earnings forecasts are impacted by 0.34%, where 1% higher labor costs has far less significant impact of only 0.03% on earnings. Each 1% higher selling expenses will have more impact on earnings by 0.08%, while every 1% increase in G&A expenses will have 0.04% impact on earnings. Meanwhile, the impact on earnings from 1% lower revenues than our assumption is equally significant from food processing sales and coffee processing sales (-0.30%).

Fig. 31: Earnings Sensitivity Analysis

	Impact on FY16F Net Profit
Revenues	
- Food Processing -1%	-0.30%
- Coffee Processing -1%	-0.30%
Cost of Goods Sold	
- Direct Materials +1%	-0.34%
- Direct Labor +1%	-0.03%
Gross Margin	
- Food Processing -1%	-0.38%
- Coffee Processing -1%	-0.39%
Operating Cost	
- G&A Expenses +1%	-0.04%
- Selling Expenses +1%	-0.08%

Source: Indo Premier Forecasts

Valuation

We initiate coverage on MYOR with a SELL rating and target price of Rp1,450, implying FY17F P/E of 22.1x. We derive our target price based on DCF valuation with explicit free cash flow forecasts for 2017-2026F, taking into account capex spending, and a terminal value, with the following assumptions: 5% terminal growth rate and 11.3% WACC based on a risk-free rate of 7.5%, and an asset beta of 0.6. We assume a tax shield of 25% on cost of debt to reflect the company's marginal corporate tax rate.

A summary of our DCF analysis is shown in Fig.30. The net present value (NPV) of our free cash flow forecasts in the next ten years represents 45.3% of our Enterprise Value estimate for the company, with the NPV of Terminal Value contributing the remaining 54.7%. Based on our forecast for MYOR's net debt level as of 31 December 2017, we arrive at our DCF-derived fair equity value estimate of around Rp32.9tn for the company.

Although, our forecast shows MYOR's earnings growth during 2016F-2018F to still be attractive, we are cautious on the fluctuation in soft commodity prices especially sugar as we believe that MYOR's earnings is highly linked to commodity prices, as seen historically. The stock is currently trading at FY17F P/E of 28.7x, higher than the average P/E of consumer peers in Indonesia. We think the valuation is not justified considering company's high earnings volatility and exposure to commodity price movement, unlike the nature of consumer stocks in Indonesia which are more defensive.

It is so unfortunate considering the fact that MYOR has been in the industry for more than four decades and also recognized for its solid execution record. In addition, we view Indonesia serves as a lucrative market for F&B producers due to burgeoning middle income population. However, it is necessary to maintain innovation in order to maintain its position and also capture more consumers.

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Fig. 32: DCF Valuation Summary

(Rp bn)	2017F	2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F
Free Cash Flow										
EBIT	2,335.0	2,627.0	2,681.5	1,855.4	2,499.4	2,649.4	2,762.9	2,880.9	3,003.6	3,131.2
Plus: Depr. & Amort.	573.3	651.9	719.3	798.5	917.7	1,052.8	1,203.7	1,370.4	1,553.0	1,751.4
EBITDA	2,908.4	3,278.9	3,400.8	2,653.9	3,417.1	3,702.1	3,966.6	4,251.4	4,556.7	4,882.7
Less: Tax Payable	583.8	656.8	670.4	463.8	624.9	662.3	690.7	720.2	750.9	782.8
Plus: Changes in W/C	(544.8)	(540.7)	(547.5)	(428.2)	(397.8)	(369.5)	(348.8)	97.1	(355.3)	(370.6)
Less: Capex	(650.0)	(990.0)	(850.0)	(1,000.0)	(1,500.0)	(1,700.0)	(1,900.0)	(2,100.0)	(2,300.0)	(2,500.0)
Free Cash Flow	2,297.3	2,405.0	2,673.7	1,689.5	2,144.2	2,295.0	2,408.5	2,968.7	2,652.3	2,794.9
Terminal Value										
Terminal Growth	5.0%									
Terminal WACC	11.3%									
Terminal FCF	2,795									
Terminal Value	44,022									
NPV of TV	16,720									
DCF Valuation										
NPV of Forecasts	13,850									
NPV of TV	16,720									
Enterprise Value	30,570									
Less: Net Debt	2,349									
Less: Minority Interests	(36)									
Equity Value (Rp bn)	32,954									

Source: IndoPremier Forecasts

Fig. 33: P/E Comparison

Company	B'berg	Country	Mkt Cap	P/E (x)		EV/EBITDA (x)		ROA (%)	ROE (%)
	Code		(US\$ mn)	FY16F	FY17F	FY16F	FY17F	FY15	FY15
Indonesia									
Unilever Indonesia	UNVR IJ	Indonesia	23,927.63	49.7	45.5	35.8	32.4	39.0	122.3
Kalbe Farma	KLBF IJ	Indonesia	5,263.08	33.8	30.6	20.4	18.2	15.4	20.3
Indofood CBP	ICBP IJ	Indonesia	5,651.37	32.0	27.0	22.0	18.0	11.6	20.6
Tiga Pilar Sejahtera	AISA IJ	Indonesia	133.54	16.8	13.6	7.0	6.1	3.9	10.1
Nippon Indosari	ROTI IJ	Indonesia	594.82	24.7	26.7	13.2	11.1	11.2	25.2
Kino Indonesia	KINO IJ	Indonesia	341.18	22.8	19.5	12.9	11.2	10.4	21.6
Average Indonesia				30.0	27.2	18.6	16.2		
Outside Indonesia									
J&J Snack Foods Co	JJSF US	USA	321,389	9.9	12.3	30.5	28.7	13.7	12.9
Mondelez Intl	MDLZ US	USA	69,372	11.2	26.1	23.2	21.5	17.6	16.3
Want Want China	151 HK	Hong Kong	8,478	13.4	27.7	17.3	17.3	10.5	10.7
Nestle India	NEST IN	India	8,616	9.5	19.9	50.4	43.5	24.9	21.4
Meiji Holdings	2269 JT	Japan	11,743	7.2	16.1	22.0	19.3	11.1	10.1
Morinaga & Co.	2201 JT	Japan	2,239	5.1	11.5	21.2	19.3	11.2	10.4
Ezaki Glico	2206 JT	Japan	3,140	5.1	8.1	19.9	18.1	8.5	7.9
Orion Corp	001800 KS	Korea	3,369	5.5	12.4	18.1	17.2	9.5	9.1
Average outside Indonesia				8.4	16.8	25.3	23.1		
Average				17.6	21.2	22.4	20.1		

Source: Bloomberg

Closing price and foreign exchange rate as of January 25, 2017

UNVR (UNVR IJ; Rp41,900 ; HOLD), KLBF (KLBF IJ; Rp1,500 ;HOLD), ICBP (ICBP IJ; Rp8,600; HOLD), AISA (AISA IJ; Rp1,995; BUY), ROTI (ROTI IJ; Rp1,570; HOLD) are Indo Premier forecasts. J&J Snack (JJSF US; US\$129.5; Not Rated), Mondelez International (MDLZ US; US\$44.9; Not Rated), Dali Foods Group (3799 HK; HKD4.2; Not Rated), Want Want China (151 HK; HKD5.2; Not Rated), Nestle India (NEST IN; INR5,57.8; Not Rated), Meiji Holdings (2269 JT; JPY8,740; Not Rated), Ezaki Glico (2206 JT; JPY4,695; Not Rated), Orion Corp. (001800 KS; KRW652,000; Not Rated) are Bloomberg forecasts.

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Year To 31 Dec (RpBn)	2014A	2015A	2016F	2017F	2018F
Income Statement					
Net Revenue	14,169	14,819	17,512	19,788	22,263
Cost of Sales	(11,634)	(10,620)	(12,784)	(14,307)	(16,096)
Gross Profit	2,535	4,198	4,728	5,481	6,167
SG&A Expenses	(1,644)	(2,336)	(2,627)	(3,146)	(3,540)
Operating Profit	891	1,863	2,101	2,335	2,627
Net Interest	(362)	(222)	(283)	(355)	(320)
Forex Gain (Loss)	0	0	0	0	0
Others-Net	0	0	0	0	0
Pre-Tax Income	529	1,640	1,818	1,980	2,307
Income Tax	(120)	(390)	(436)	(475)	(554)
Minorities	(6)	(30)	(33)	(36)	(42)
Net Income	403	1,220	1,349	1,469	1,712
Balance Sheet					
Cash & Equivalent	713	1,682	1,080	1,015	1,677
Receivable	3,081	3,379	5,486	6,655	7,758
Inventory	1,967	1,763	2,101	2,352	2,646
Other Current Assets	748	630	661	694	729
Total Current Assets	6,509	7,454	9,328	10,716	12,809
Fixed Assets - Net	3,586	3,771	3,898	4,314	4,511
Goodwill	0	0	0	0	0
Non Current Assets	190	105	213	236	248
Total Assets	10,299	11,343	13,454	15,282	17,586
ST Loans	1,424	784	1,051	1,187	1,336
Payable	823	1,023	0	1,254	1,411
Other Payables	315	781	791	877	985
Current Portion of LT Loans	553	564	703	695	863
Total Current Liab.	3,114	3,151	3,666	4,014	4,595
Long Term Loans	1,627	1,462	1,926	2,177	2,449
Other LT Liab.	1,479	1,535	1,587	1,645	1,708
Total Liabilities	6,221	6,148	7,180	7,836	8,752
Equity	444	444	444	444	444
Retained Earnings	3,540	4,633	5,702	6,860	8,234
Minority Interest	93	117	129	142	156
Total SHE + Minority Int.	4,077	5,194	6,274	7,446	8,834
Total Liabilities & Equity	10,298	11,343	13,454	15,282	17,586

Source: MYOR, IndoPremier

MYOR Initiating Coverage

Year to 31 Dec	2014A	2015A	2016F	2017F	2018F
Cash Flow					
Net Income (Excl.Extraordinary&Min.Int)	410	1,250	1,382	1,505	1,753
Depr. & Amortization	399	464	517	567	644
Changes in Working Capital	(1,259)	572	(2,297)	(1,218)	(1,166)
Others	49	366	231	361	338
Cash Flow From Operating	(401)	2,653	(168)	1,215	1,570
Capital Expenditure	(897)	(564)	(752)	(1,005)	(854)
Others	18	177	153	168	188
Cash Flow From Investing	(879)	(387)	(599)	(837)	(666)
Loans	729	(795)	871	379	589
Equity	0	0	0	0	0
Dividends	(206)	(143)	(281)	(310)	(338)
Others	(370)	(375)	(425)	(510)	(493)
Cash Flow From Financing	153	(1,313)	165	(442)	(243)
Changes in Cash	(1,127)	953	(602)	(64)	661
Financial Ratios					
Gross Margin (%)	17.9	28.3	27.0	27.7	27.7
Operating Margin (%)	6.3	12.6	12.0	11.8	11.8
Pre-Tax Margin (%)	3.7	11.1	10.4	10.0	10.4
Net Margin (%)	2.8	8.2	7.7	7.4	7.7
ROA (%)	4.0	11.3	10.9	10.2	10.4
ROE (%)	10.1	26.3	23.5	21.4	21.0
ROIC (%)	5.9	18.1	17.0	15.4	15.4
Acct. Receivables TO (days)	75.3	79.0	73.1	71.6	71.3
Acct. Receivables - Other TO (days)	0.7	0.6	19.3	40.3	46.9
Inventory TO (days)	6.8	5.7	6.6	6.4	6.4
Payable TO (days)	29.9	31.7	30.6	30.3	30.2
Acct. Payables - Other TO (days)	3.6	4.7	4.1	4.1	4.2
Debt to Equity (%)	88.4	54.1	58.7	54.5	52.6
Interest Coverage Ratio (x)	0.4	0.2	0.2	0.2	0.2
Net Gearing (%)	70.9	21.7	41.4	40.9	33.6

Source: MYOR, IndoPremier

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INVESTMENT RATINGS

BUY : Expected total return of 10% or more within a 12-month period
HOLD : Expected total return between -10% and 10% within a 12-month period
SELL : Expected total return of -10% or worse within a 12-month period

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